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DRUG STORE NEWS

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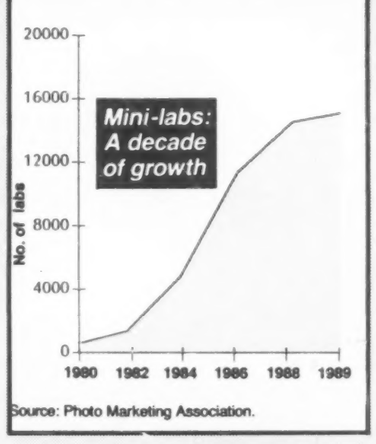
LATE NEWS

• CHICAGO — Automated/ Associated Drug Stores has chosen Orlando, Fla. as the site of its 1991 fall buying show Sept. 20-22.

• ROME, Mich. — F. Kevin Browett, formerly vp-pharmacy at Peoples Drug Stores, joins Kmart as senior director of pharmacy operations.

• DEERFIELD, Ill. — Walgreens announced a two-for-one stock split.

FEATURES



Source: Photo Marketing Association.

'90s innovation in the spotlight

Exciting changes in in-store photo processing are some of the innovations that will shape the coming decade. **Page 11.**

Xmas cosmetics a mixed bag

Beauty Beat found most chains anticipated Christmas cosmetics/fragrance slowdown and thus avoided a total rout. **Page 20.**

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SECOND CLASS

Walgreen pushes '91 store growth

By James Frederick

Walgreen Co. will remain aggressively growth-oriented despite recessionary pressures in 1991, chairman and ceo Charles R. Walgreen III told shareholders at the annual meeting Jan. 9.

The chain will add at least 110 new stores to its 1,588-unit base this year around the U.S., with 600 new units slated over the next five years. "I hope that includes some first-rate acquisitions," Walgreen said. "We will be looking."

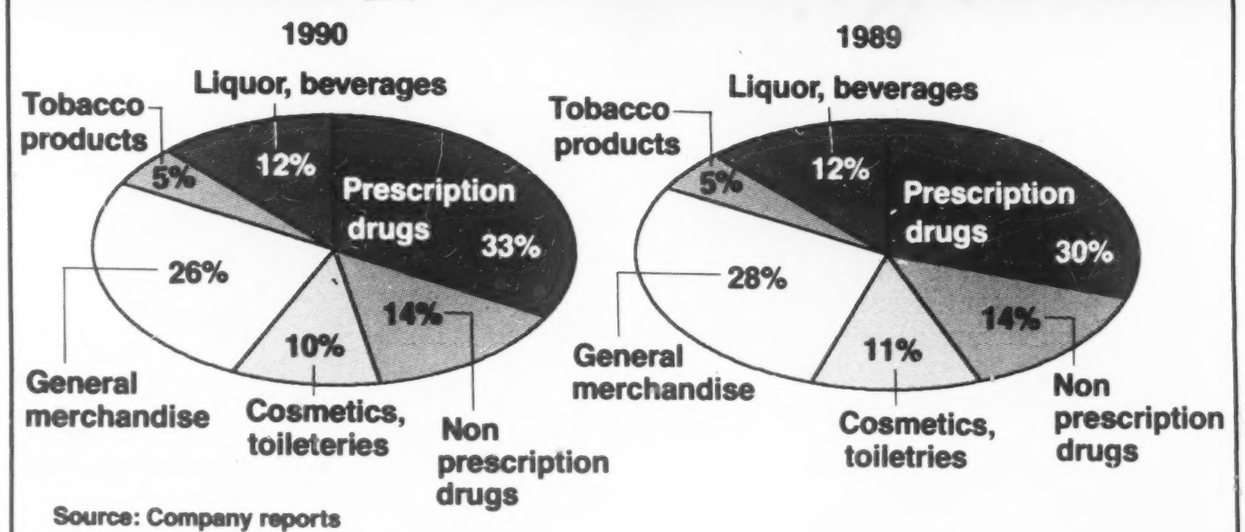
Much of the growth will be in California's central valley, in the Northeast, and in Florida, said president L. Daniel Jorndt in his first shareholder address as president. "We're prepared to handle a major acquisition, with the experience of Medi Mart behind us," he said.

The chain will also break into the Evansville, Ind. market for the first time this year with six RxPress stores.

Walgreens' expansion appetite is being fed by a planned $200 million capital spending program in '91—the second year in a row that spending for store growth, modernization and retail automation projects has hit that level. The money will also fund completion of a $43 million, highly automated distribution center in eastern Pennsylvania—Walgreens' ninth—and help cap the ambitious Strategic Inventory Management System project, which Jorndt said is 90 percent completed. Also due for completion this year is in-store scanning; tied with SIMS, the scanners will give Wal-

See **Walgreens** *page 21*

Prescription drugs gain at Walgreens
(Share of sales by product class)



Source: Company reports

LBO may leave Revco insolvent, says examiner

NEW YORK — Revco's 1986 leveraged buyout probably left the company without enough capital to conduct its business and meet its obligations, and may have left it insolvent, according to a court-appointed examiner's final report.

Released Jan. 2, the 300-page report confirms preliminary findings made last summer. It paints a scathing portrait of an ill-conceived, highly leveraged buyout made at the height of the go-go years of the '80s, when dealmaking and junk bond financing were at fever pitch and caution was perhaps at its lowest point.

In Revco's case, the $1.4 billion paid to take the company private was largely a debt-financed deal that enriched stockholders, former top managers, investment bankers and dealmakers,

See **Revco** *page 21*

Value, convenience key to successful Christmas

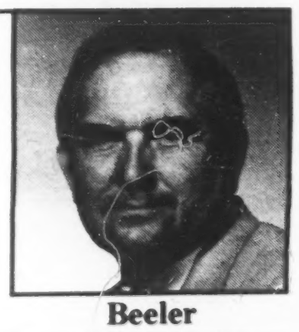
By David Vaczek

NEW YORK — Drug chains with practical inventory levels who appealed to cautious consumers' inclination toward value and convenience fared best during a Christmas season that produced mixed results for drug retailers.

Spooked shoppers, who made a miserable season for department stores, also bedeviled drug chains in some regions. The recession and the Persian Gulf crisis fostered a penny-pinching mood.

See **Christmas** *page 21*

'Lots of folks are out of work and scared about their futures. The media have done a good job of scaring people to death.'
—Don Beeler, chairman Snyder's Drugs.



Beeler

Bleak outlook doesn't panic drug industry

If you're looking for gloom and doom scenarios, welcome to 1991. Plenty of economists and retail consultants are predicting it could be a doozy of a year.

A survey of the nation's major retailers last fall by Deloitte & Touche underscored the gloomy outlook: more than 82 percent of those surveyed believed

SPECIAL REPORT OUTLOOK '91

the U.S. was already in a recession as far back as November, and seven of 10 of then predicted the economy's health would get worse this year. Result, according to the poll: steeper price competition, shaken consumer confidence, weak demand from increasingly demanding shoppers, and cutbacks in inventories.

There are plenty of good reasons to batten down the hatches. War clouds and a major disruption of oil supplies threaten in the Middle East, where more than 400,000 American troops await their orders. Layoffs and cutbacks have swept through big sectors of the economy like banking, real estate, manufacturing and finance. Unemployment continues to climb. The deficit remains an intractable drain on the money supply.

LBO's falter

Meanwhile, leveraged companies continue to fall prey to their debt loads after a growth binge in the 1980s. Bank loans have dried up, leading to a

Retailing in the '90s, pg. 4

crunch in real estate development. Anticipating the worst, manufacturers and retailers continue to scale back production plans, inventory purchases and expansion plans.

"As far as 1991 goes, I'm afraid to think about it," said one chain drug executive in Ohio. "The whole thing is scary."

That spells a consensus among drug retailers that 1991 will be a disaster, right?

Not at all. Unlike some of their counterparts at big general merchandise

See **Industry** *page 21*

IN THIS ISSUE

Over 400 to attend NACDS show

ALEXANDRIA, Va. — More than 400 chain and supplier executives and 60 exhibitors will attend the National Association of Chain Drug Stores' second annual conference on distribution/logistics. It will be held in Grenelefe, Fla. Feb. 24 to 26.

The business program is headed by Jack Futterman, chairman, president and ceo, Supermarkets General. Vern Brunner, executive vp, Walgreens, and Mal Jozoff, Group vp, Procter & Gamble, will speak on retailer/supplier alliances.

Logistics experts attending include Jim Morehouse, A.T. Kearney and Dr. Doug Lambert of the University of Florida.

Subjects focused on will include Electronic Data Interchange, Quick Response, and the use of telecommunications.

The event's co-charimen are John Brown, senior vp distribution, Walgreens, and Bob Keehn, distribution manager H&BA, Procter & Gamble.

Drug Emporium 3rd-qtr. net sales up

COLUMBUS, Ohio — Drug Emporium reported that third quarter net sales were up 27 percent to $153.3 million, with nine-month sales up 25 percent to $442 million. The third quarter sales growth includes $6 million sales from three franchises Drug Emporium purchased in the quarter ending Nov. 30.

Net earnings were $1.399 million compared with $1.4 million in last year's third quarter, with earnings per share of 11 cents in both quarters. This quarter's earnings absorbed a $700,000 LIFO charge.

Nine-month net income was $5.4 million, or 41 cents per share, versus $5.5 million, or 42 cents a share, last year.

"Given the tough retailing environment and a full year of double-digit growth in same-store sales, there is no question that our more aggressive pricing strategy continues to achieve our objectives," said Gary Wilber, ceo.

Walgreens names dc managers

DEERFIELD, Ill. — Walgreens has named Donald Boyajian as manager of its newest distribution center opening this June in the Lehigh Valley, near Allentown, Pa. It will serve about 100 drug stores in New Jersey, New York, and four New England states. Boyajian joined Walgreens in 1979 as an assistant store manager. He was promoted to his most recent position, Orlando distribution center manager, in 1989.

Also, Gary Ellingson was promoted as dc manager at Orlando. He will be responsible in that post for merchandise shipped to Florida and Puerto Rico.

Ellingson, who joined Walgreens in 1982, was most recently manager of operations at the Orlando facility.

McKesson designing Wellness Centers

SAN FRANCISCO — McKesson Drug Co. is designing Wellness Centers for its customers who want to dispense information and health care products to their customers. Products and services may include blood pressure testing, cholesterol screening, health care video rental and sales, home diagnostics, and a selection of health care brochures.

The center can also include a Pharmacy Information Center, a touch screen kiosk that gives information on over 5,000 drugs and on diseases and other health topics.

Said Fred Toney, McKesson's senior vp, sales and merchandising: "Wellness is a key concept for the '90s and beyond. Having Wellness Centers in pharmacies will help establish the pharmacist—already considered the most trusted professional according to a recent Gallup poll—as the local wellness resource," Toney said.

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Cautious buyers take care of business at NHMA show

Attendance lagged at the Housewares Show in McCormick Place this year but buyers who were there came to do business.

CHICAGO — Economic jitters and the threat of war in the Mideast didn't keep most drug chains from the National Housewares Manufacturers Association's 1991 Housewares Show Jan. 6-9. Chain drug buyers in general were braced by better-than-expected Christmas results, and most were balancing caution with a willingness to seek out new products and do some business.

"The drug store chains seem to be coming through this [economic downturn] very well so far," said Jim Devine, president of Affiliated/Associated Drug Stores. "They're coming into this show with a pretty positive attitude."

Added AADS buyer Don Vanacek, "We're surprised at all the new items from the vendors. I don't think we should be as pessimistic about '91 as some people are."

Vanacek and other buyers expressed particular interest in a range of products aimed at drug stores. Among them: a new tooth buffing system developed jointly by Braun and Oral B; personal care appliances with mandated electric safety features this year; storage items from Rubbermaid and other suppliers in new, softer colors; water treatment systems; and facial massage products from vendors like Intrasonics. Unlike many discount and department store chains, drug and combo store operators by and large came through Christmas without a ton of excess inventory, said Devine and other buyers at the show.

"We went full-steam ahead last year despite the economy, and we had a good year as a result," said James Fisher of Fruth Pharmacies in an interview at giant McCormick Place. "We'll probably be more conservative in our buy quantities this year, though."

Downturn, consolidation cuts attendance

CHICAGO — Overall buyer attendance at the annual Housewares Show seemed sparser than in previous years, although midway through the event the NHMA was still hoping to hit its goal of 13,000 buyers from around the globe and total attendance of 50,000. NHMA spokesperson Kimberly Rawn acknowledged the "shrinking domestic base" for buyers as retail chains fold or merge, but said attendance from overseas was up by 33 percent.

Those who made the show were "playing it close to the vest and ordering cautiously," she said, but they were writing plenty of business with smaller, entrepreneurial-type vendors offering niche opportunities and deals. Also generating interest, she said, were efforts by many manufacturers to bring out more environmentally friendly products and packaging.

The reduction in aisle traffic was good news in one sense: it gave each buyer more time to spend at each booth.

"If we come down here and find a half-dozen good items, it pays for our trip," said Gary Goyeau of Ontario's Big V Pharmacies drug chain on the second day of the show. "We've already found them and we've got two more good days to work. The aisles are so dead, we can get in to see anybody easily."

For their part, the vendors reported fewer buyers but said those who came were on the lookout for new sales opportunities, despite expectations for a tough sales climate in '91.

Longs' co-founder, Joe Long, dead

WALNUT CREEK, Calif. — Longs Drug Stores announced the death of Joseph M. Long, chairman of the board and co-founder, on Dec. 28.

While Long had been moderately active in the company since his retirement a few years ago, his son Robert Long, president and ceo, said no changes in the company would result from his father's death.

Bob Bolger, who was president of the National Association of Chain Drug Stores when Long was the association's chairman in 1973-75, said: "His death is a great loss to the drug store industry. He gave a breath of fresh air to NACDS and the industry."

Long co-founded the chain in 1938 with his brother Thomas, and immediately the stage was set for a retailing empire.

The brothers had learned the hard way about the success and failures of retailing, through the demise of their father's general merchandising store, which failed during the the Great Depression.

J. Long

The brothers decided at the outset to avoid financial trouble by not extending credit and staying out of debt. An attitude of superior customer service was also emphasized—a feeling which was extended to the company's employees, with a management style of store autonomy.

The brothers were the first to set up such a retailing style—a style that allowed each store to operate individually, which has helped bring success to the now 240-plus store chain.

"Joe Long and his brother believed that the real activity was at the store level," said Bolger. "They thought it was important that everyone from the store manager level downward knew that they were important to the success of the total operation."

Another important step Long took was buying his leases and owning the land his stores were built on. "This is unique in retail store management," Bolger added. "He put the money back into the business and especially with the real estate market in California, it's a wonderful opportunity for the company."

In addition, Long contributed to several California universities and to state park institutions, Bolger said. "People never stopped learning from him, no matter what the setting," he concluded.

Veteran staff is close to the action

IN THE MARKET
BRUCE BUCKLEY

Collectively the *Drug Store News* editorial staff could celebrate a golden anniversary this year. Our 11 staff editors have accumulated 50 years of experience writing about the industry.

The turn of the year is the time to ponder stats like that. Here are a few more: Seven of our 11 staff editors have been with *Drug Store News* for at least five years. The longest: 10 years; the least: two days (our new desk editor, Carol Kearney, joined us Jan. 7.) Mean length service is five years, average just under that.

These figures do not even include Ken Rankin, who has been covering the Washington scene for *Drug Store News* and its predecessor, *Chain Store Age Drug Edition*, for 18 years.

We've got two other news bureaus, one in Cleveland and the other in Dallas. That's in line with our policy of putting our editors close to where the retail action is.

From Cleveland our veteran senior editor Jim Frederick roams widely throughout the Midwest and into the Pacific Northwest. Jim probably amassed more frequent flyer points than any other member of the staff this year.

In Dallas we have Elizabeth Richardson. A native Texan, Elizabeth joined the staff just under two years ago as assistant pharmacy editor after a stint with the Texas Pharmaceutical Association. When a spot opened up in our Dallas office, Elizabeth jumped at the chance to return to the land of Longhorns and Aggies.

Our editorial staff divides its efforts between *Drug Store News* and our new pharmacy magazine, *Drug Store News for the Pharmacist*, an offshoot of the tabloid-sized *Drug Store News/Inside Pharmacy*. Around here the new magazine is referred to as *FTP (For the Pharmacist)*. It's edited by Harold Cohen, who spent 15 years as a retail pharmacist before joining us seven years ago. Harold's punchy, personal column, Cohen's Capsules, is probably the most avidly read piece of writing in *Drug Store News*.

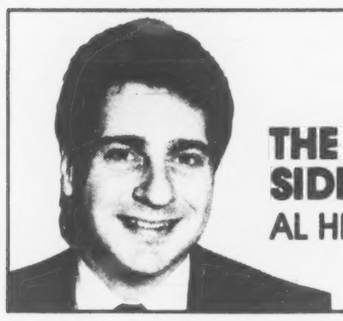
The *Drug Store News* group is involved in other enterprises as well. Publishing for the first time this month is *Supermarket HQ Quarterly*. It's aimed at non-foods executives in food chains and is edited by Al Heller, our executive editor. As exec editor, Al has been doing the daily assignments and primary editing for *Drug Store News* for almost five years: a difficult and important job.

Another publication produced by our group (and shared with our sister publication *Discount Store News*) is *FM (Food Merchandising for Non-Foods Retailers)*. It's aimed at drug and discount store food merchants and is edited by Liz Parks, who has been with *Drug Store News* for almost eight years. Liz, of course, is the prolific editor/writer who covers the beauty scene in these pages.

We've got two other talented senior editors in the New York office, both with five years experience covering the industry. Dave Vaczek handles the technology beat and is one of our most tireless reporters. Last year he won Lebhar-Friedman's top writing award, the Godfrey Lebhar plate. Susan Ball covers advertising and promotions and has done some first-rate reporting for both *Drug Store News* and *Drug Store News for the Pharmacist* (read her article on pharmacists counseling to the elderly in the current issue).

This column wouldn't be complete without mentioning our copy desk editors, who work long, stressful hours catching our dumb errors and making the publications look good. A special thanks to Bernadette Casey, our senior desk editor whose laughter neutralizes our agita; Fred ("Freditor") Rueckher, our newly-promoted assistant desk editor; and the above-mentioned Carol Kearney, who is still new enough to love all of this.

Sometimes there's no place *but* home



THE HUMAN SIDE
AL HELLER

Eighteen years after college, where I took my last official Communication Arts class, I have taken a refresher course. In real life.

I didn't exactly choose to. After a car hit me and broke my leg last month, my usual 100-minute commute became impossible. In order to keep working, I've grown keenly attached to on-line computers and modems, FAX machines and the call-waiting feature on my home telephone.

Communication Arts holds new meaning for me. What I took for granted in the office has become my work lifeline for the time being — not too unlike retailers, at headquarters and stores, who rely increasingly on new forms of communication in their day-to-day operations.

EDI; daily polling of stores and warehouses by headquarters mainframes; third-party claims processing; electronic planogramming; voice mail; credit card authorizations; even long-distance talks with suppliers, managers and staffs — all are crucial links to effective retail management.

Some readers don't have to think back too far to know how poor communications disrupts business. On the day I wrote this column, Jan. 4, AT&T construction workers accidentally severed a fiber optic cable in Newark, N.J. Sixty percent of long-distance phone and computer calls in and out of New York City that day didn't work.

Operations at airports, commodities exchanges, banks — and retailers — suffered.

The snafu couldn't affect face-to-face communication, however — that special art of making people feel important, truly understanding what they want and meeting their needs. I know a few people whom readers might recognize who deserve mention for their personal skills:

- George Jeffers, former Skaggs president who owns Price Less deep discounters in Sacramento. He cruises store aisles with an uncanny sense of when to approach customers. When he told an elderly shopper he would special-order a denture adhesive for her, the look of appreciation she gave him said it all.
- Sam Walton, Wal-Mart chairman, who exhorts his retail hourlies to "meet people half-way and treat them the way they want to be treated themselves." Grand openings and annual meetings often have the unrestrained tenor of revival meetings, with Walton whoopin' it up and building staff pride along the way through personal attention.
- Fred Canning, Walgreen board member and former president, who after meeting me for a moment on a Deerfield headquarters staircase, called me by name in a meeting the next day. Three months later, at NACDS Annual, we chatted warmly for a half-hour about this newspaper and his chain.
- Chris Visocan, a former clerk at Revco in Solon, Ohio, who deftly handled front-end transactions on her new scanner while she urged a motorcyclist-customer to be careful, charmed merchandise from a four-year-old who wouldn't listen to her mom, and discussed cactus with a woman buying potting soil.

Communications, high-tech or up-front and personal, is an art. Take this picture, for instance.

Some people like me better with my broken leg because I'm easier to reach: I'm a stationary target and I answer my own phone. I say to them and their like-minded colleagues that I'll have the last laugh. By the time you read this, I expect to be back at my usual frenetic pace. You missed your chance.

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INNOVATIVE PRODUCTS

for the '90s

It's been said before: Product innovation is the lifeblood of retail stores. In the following pages *Drug Store News* examines key areas of innovative activity for the '90s. The section is not meant to cover the full gamut of drug store categories. Instead it focuses on some current hotspots that are likely to have a powerful effect on the coming decade. They are: In-store photo labs, environmental products, diet aids/meal replacements, and the HBA categories of hair, skin and sun care.

Micro labs add dimension to on-site processing

By David Vaczek

Photographic micro labs promise to be the "foot-in-the-door" for retailers eager to build their film-/photo business with in-store processing.

Micro lab makers say the new labs are smaller, faster, easier to use and less expensive than their big brothers'—in-store mini labs.

Late last year, Gretag gave the new technology a strong boost with the launch of its Master Lab series of micros.

Like the micro lab unveiled by Print Technology early last year in its PHOTOGO franchise program, the Master Lab combines film processing and photo printing in one machine.

Bob Deerin, director of sales and marketing for Gretag's retail division, says several drug chains including Thrifty have installed the Master Lab.

The micro-lab pioneer, Print Technology, succeeded in capturing interest in the concept and sparked the trial installation of the French-made PHOTOGO machines in a half dozen chains.

As of the first of the year, PHOTOGO had 135 installations, with over 100 in mass merchant accounts.

Observers predict that mini-lab makers Noritsu, Fuji and Copal will soon unveil their own versions of micro technology.

Some advantages

Micros have certain advantages over minis for the retailer. With footprints under 10 square feet, they require less store space. Also, employees can be quickly trained, since most of the functions are automated. PHOTOGO's system takes the roll of 35mm film in one end and churns the prints out the other. Gretag's Master Lab requires the operator to hand load the processed film for printing. But it processes all the popular film formats in five print sizes.

Cost is another advantage. Micros require less than half the daily roll volume to provide an adequate pay back — less than 20 rolls compared with 40 to 50 rolls for most mini models in use.

Minis continue to have one leg up on micros: faster throughput. That's a distinct advantage for high-volume stores that need to insure one-hour or same-day service.

Despite the ability of micros to snatch away business, the major wholesale labs will be promoting their success.

Guardian, for example, will be an official distributor for the Master Lab, providing a full marketing program. For Guardian, distributing the micros is a strategic move designed to cater to retailers' demand for same-day processing with a technology that is less threatening to their wholesale lab business than mini-labs, according to Paul Hoernschemeyer, vp-marketing.

Qualex, the largest wholesaler, "will be a major marketer of micro lab equipment," said Tom Broderick, general manager.

Micro lab makers say the labs are smaller, faster, easier to use and less expensive than their big brothers'—in-store mini labs.

Mini-lab processing increases in drug stores

(Percent of rolls processed)*

Retail channel	Total market share** 1988	1989	Processed by retail mini-lab	
Drug stores				
Stand-alone mini labs				
Discount stores				
Supermarkets				
Camera stores				
Mail order				
Other				
Total	100	100	30.4	32.3

*Totals may not equal 100 percent due to rounding.
**Including rolls processed by wholesale, captive and mini-labs and by mail order.
Source: Photo Marketing Association.

Smaller, low-cost minis gain ground

Marketers say that minis have already captured as much as 50 percent of total photo finishing in the U.S.

New smaller and lower-cost mini-lab models, with more functions and more highly automated, are bidding for retailers' attention in the growing market for in-store photo processing machines.

With demand for same-day processing well established, minis can add a new dimension to retailers' film photo departments. Marketers say that minis have already captured as much as 50 percent of total photo finishing in the U.S.

Film industry experts agree that stores typically boost wholesale processing business 10 percent to 20 percent when a mini-lab is installed. That's because the in-store lab heightens the retailer's profile in film developing.

Smaller sized machines by Noritsu and Fuji, which feature easy-to-use technology, address drug chains' key concerns about space and user training.

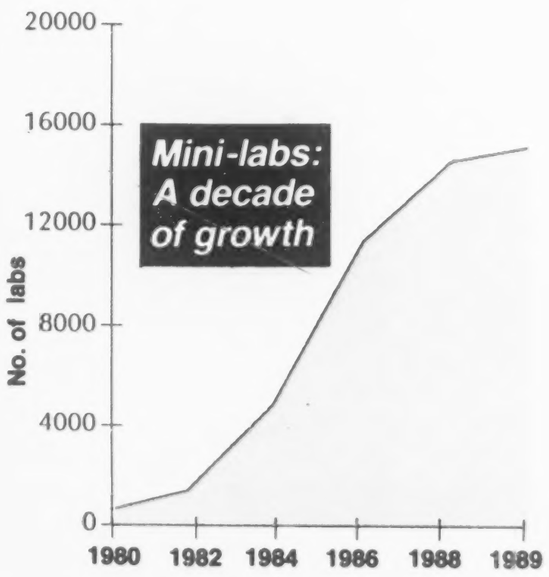
Noritsu's QSS 1401 is less than 13 square feet for two pieces of equipment, the film processor and printer, a leap from the 40 square feet earlier models have occupied.

Standard features include a color negative scanner that automatically corrects negatives' color and density and a carrier that automatically sets the proper printing channel for different brands of negatives. Noritsu, meanwhile, is readying introduction of a Model 1501, which will have the capability of printing 8 by 10 and 8 by 12 enlargements. Thus for $5,000 more than the Model 1401, the retailer is offering a service that before required him to buy a $50,000 enlarger.

Fuji this year rolled out the FA Compact II, with automatic features similar to Noritsu's in a footprint of 11 square feet. Noritsu's, though, is said to have a higher throughput.

The vendors expect mini-lab demand to continue. A photo trade paper reported last year Noritsu plans to boost production of its QSS line of film processing equipment by 50 percent with installation of robotics allowing unmanned nighttime operations.

For retail sites with sufficient demand, minis' high volume capacity is required.



Source: Photo Marketing Association.

Rite Aid ends 3rd qtr. with gains in revenue

SHIREMANSTOWN, Pa. — Rite Aid reported an 8.4 percent gain in corporate revenues, to $858.2 million from $791.7 million, and income from continuing operations of $21.6 million, or 52 cents a share, versus $4.1 million, or 10 cents a share, for the third quarter ended Dec. 1, 1990. A $22 million one-time pre-tax charge to earnings, a provision for the closing of the chain's video departments, reduced income from continuing operations last year by an after-tax amount of $13.4 million, or 32 cents a share.

Net income for the comparable 13 weeks one year ago was $22.5 million, or 54 cents a share, and included income from discontinued operations of $18.4 million, or 44 cents per share. Year-to-date net income last year was $67.1 million, including income from discontinued operations of $20.2 million, or 49 cents per share.

Revenues in the drug store segment advanced 8.3 percent, to $811.25 million from $748.97 million, for the third quarter. Net income increased 19.4 percent, to $19.7 million from $16.5 million, excluding last year's video provision.

Same-store sales in the drug store segment increased 7.3 percent for the third quarter and 7.1 percent for the year to date.

Corporate revenues year-to-date rose 8.6 percent, to $2.5 billion from $2.3 billion, and income from continuing operations increased to $68.3 million, or $1.65 a share, from $46.9 million, or $1.13 a share.

Revco reports 2nd-qtr. net loss; sales increase by 3.7 percent

TWINSBURG, Ohio — Revco D.S. reported a net loss of $23.5 million for its fiscal 1991 second quarter ended Nov. 17, 1990, compared with a $8.7 million in the same period last year. Sales rose a meager 3.7 percent, to $418 million, compared with $403 million last year.

Results for both periods exclude the 712 drug stores Revco divested over the past year in its downsizing program. With those stores, Revco's sales for last year's second quarter were $621 million.

Earnings before income taxes, reorganization items, interest and depreciation were $3.4 million for Revco's remaining 1,136 stores, compared with $20.8 million for the same period of fiscal 1990.

Revco chairman and ceo Boake Sells called fiscal '91 a "transition" year for the company. "Our operating performance has suffered as we have sought to implement several long-term strategies in the midst of bankruptcy reorganization and an economy and retail environment which have gone soft.

"We have implemented our computer systems chainwide; now the work begins of using these systems to their potential," Sells added. "We have divested 712 stores, and are in the process of developing market share from that tighter base. We have begun to remodel stores. Overall, we have pushed this organization for more change in one year than most see in five years."

Walgreens 1st-qtr. profits up thanks to high gross margins

DEERFIELD, Ill. — Walgreens announced that sales for the first quarter ending Nov. 30 increased 11.1 percent to $1.54 billion, while earnings rose 12.1 percent to $32.1 million, or 52 cents a share.

The company said profits were helped by higher gross margins, the result of better ad merchandise selection, and continued shrink control. On the other hand, overall expenses were up because of higher payroll rates, scanning rollout costs and increased health insurance. Those costs were partly offset by advertising costs, which decreased as a percentage of sales.

For the 38th consecutive quarter, pharmacy sales increased by 20 percent or more, this time at 21.5 percent.

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MARKET DIARY:

Largest Dollar Gainer	American Stores	$ 2.25
Largest Dollar Loser	American Home Products	$ – 5.88
Largest Percentage Gainer	Ketchum	30.00%
Largest Percentage Loser	Perry Drug	– 17.95%

Advances	6
Declines	44
Unchanged	7
New highs	5
New lows	2

	Close 12/24/90	Close 1/9/91	Net Change	Percent Change
Drug Store News Index	2995.62	2887.32	– 108.30	– 3.62
Dow Jones Industrial Average	2621.29	2470.30	– 150.99	– 5.76
Standard & Poor's 500-Stock Index	329.90	311.49	– 18.41	– 5.58
N.Y.S.E. Composite	180.01	170.97	– 9.04	– 5.02
Value Line Index	194.86	188.15	– 6.71	– 3.44

Source: Nordby International Inc., Boulder, Colo.

DRUG STORE NEWS INDEX

Exch	Company	Ticker Symbol	Closing Price 12/24/90	Closing Price 1/9/91	Net Change In Period	Percent Change In Period	P/E Ratio	Annual Dividend Rate	Annual Dividend Yield	Annual High	Annual Low
Chain store transactions											
OTC	Accuhealth Inc.	ACCU	6.13	6.13	0.00	0.00	24	0.00	0.00	7.56	3.75
OTC	Arbor Drugs	ARBR	20.25	20.25	0.00	0.00	17	0.20	0.99	22.25	13.25
OTC	Big B	BIGB	8.13	7.50	– 0.63	– 7.69	– 18	0.00	0.00	13.63	4.75
OTC	Drug Emporium	DEMP	7.63	7.00	– 0.63	– 8.20	11	0.12	1.71	11.00	6.25
NYS	Fay's Inc.	FAY	8.63	8.25	– 0.38	– 4.35	12	0.20	2.42	10.75	7.25
ASE	Genovese Drug (L)	GDX.A	5.63	5.88	0.25	4.44	11	0.24	4.09	9.88	5.50
NYS	Longs Drug Stores	LDG	35.75	34.75	– 1.00	– 2.80	11	1.04	2.99	43.63	33.25
OTC	Medicine Shoppe	MSII	19.00	18.75	– 0.25	– 1.32	17	0.24	1.28	26.75	15.50
NYS	Perry Drug (L)	PDS	4.88	4.00	– 0.88	– 17.95	67	0.00	0.00	9.88	3.88
NYS	Rite Aid Corp.	RAD	36.25	36.50	0.25	0.69	15	1.00	2.74	38.63	29.50
NYS	Walgreen Co.	WAG	51.25	50.88	– 0.38	– 0.73	18	0.92	1.81	53.25	39.88
Wholesaler's transactions											
ASE	Bergen Brunswig	BBC	27.63	26.88	– 0.75	– 2.71	14	0.40	1.49	29.63	20.50
OTC	Bindley Western Ind.	BIND	12.13	11.75	– 0.38	– 3.09	16	0.04	0.34	14.25	8.63
OTC	Cardinal Distribution	CDIC	26.75	26.38	– 0.38	– 1.40	23	0.08	0.30	29.00	15.88
OTC	Durr-Fillauer (s) (H)	DUFM	21.80	20.50	– 1.30	– 5.96	16	0.24	1.17	22.63	15.63
ASE	Ketchum	KCH	1.25	1.63	0.38	30.00	– 1	0.00	0.00	3.38	1.25
NYS	McKesson Corp.	MCK	32.38	30.50	– 1.88	– 5.79	14	1.60	5.25	38.38	26.88
ASE	Moore Medical	MMD	4.38	4.25	– 0.13	– 2.86	– 5	0.00	0.00	9.50	3.50
NYS	Owens & Minor (H)	OMI	14.75	14.50	– 0.25	– 1.69	20	0.24	1.66	15.13	10.63
Manufacturer's transactions											
NYS	Abbott Labs	ABT	43.75	40.38	– 3.38	– 7.71	19	0.84	2.08	46.38	31.25
NYS	American Home Products	AHP	53.00	47.13	– 5.88	– 11.08	12	2.12	4.50	54.88	43.00
NYS	Baxter International	BAX	27.75	26.13	– 1.63	– 5.86	– 90	0.64	2.45	29.50	20.50
OTC	Block Drugs Co.	BLOCA	38.75	37.00	– 1.75	– 4.52	14	0.76	2.05	38.75	29.63
ASE	Bolar Pharmaceutical	BLR	2.50	2.25	– 0.25	– 10.00	– 2	0.00	0.00	18.38	1.88
NYS	Bristol-Myers Squibb	BMY	66.63	61.38	– 5.25	– 7.88	33	2.40	3.91	68.00	50.50
NYS	Carter-Wallace	CAR	52.75	53.88	1.13	2.13	16	0.92	1.71	57.50	44.88
ASE	Columbia Labs	COB	4.88	4.50	– 0.38	– 7.69	– 3	0.00	0.00	14.75	3.63
ASE	Forest Labs	FRX	49.13	45.00	– 4.13	– 8.40	27	0.00	0.00	50.75	33.63
ASE	Halsey Drug	HDG	2.44	2.25	– 0.19	– 7.71	225	0.00	0.00	5.69	2.13
NYS	ICN Pharmaceutical	ICN	2.88	2.63	– 0.25	– 8.70	0	0.00	0.00	5.25	2.50
ASE	Lee Pharmaceutical	LPH	0.88	0.88	0.00	0.00	– 3	0.00	0.00	2.75	0.88
ASE	Leiner P. Nutrition	PLI	7.88	7.63	– 0.25	– 3.17	9	0.00	0.00	12.63	6.75
NYS	Lilly Eli Co.	LLY	74.25	69.75	– 4.50	– 6.06	19	2.00	2.87	90.38	58.75
NYS	Marion Labs (H)	MKC	35.25	33.50	– 1.75	– 4.96	23	0.80	2.39	36.25	21.00
NYS	Merck Co.	MRK	87.13	82.25	– 4.88	– 5.60	19	2.24	2.72	91.13	67.00
NYS	Mylan Labs	MYL	19.75	17.13	– 2.63	– 13.29	19	0.20	1.17	24.75	13.75
NYS	Par Pharmaceutical	PRX	4.13	4.13	0.00	0.00	– 3	0.00	0.00	8.25	3.38
NYS	Pfizer Inc. (H)	PFE	80.75	75.25	– 5.50	– 6.81	17	2.40	3.19	81.75	54.50
NYS	Rhone-Poulenc Rorer	RPR	68.38	67.63	– 0.75	– 1.10	– 43	0.84	1.24	78.25	56.00
NYS	Schering Plough	SGP	45.13	42.38	– 2.75	– 6.09	18	1.12	2.64	50.75	37.00
NYS	Syntex Corp.	SYN	57.88	54.75	– 3.13	– 5.40	17	1.60	2.92	63.75	46.75
OTC	Taro-Vit Industries	TAROF	2.88	2.88	0.00	0.00	– 48	0.00	0.00	3.13	0.88
NYS	Upjohn Co.	UPJ	38.63	35.63	– 3.00	– 7.77	19	1.16	3.26	44.63	33.00
NYS	Warner-Lambert	WLA	66.88	62.50	– 4.38	– 6.54	18	1.52	2.43	70.38	49.63
OTC	Zenith Labs	ZENL	5.50	5.50	0.00	0.00	0	0.00	0.00	9.50	3.75
Other retailer transactions											
NYS	Albertson's (H)	ABS	35.88	33.88	– 2.00	– 5.57	21	0.48	1.42	37.75	24.38
NYS	American Stores	ASC	53.00	55.25	2.25	4.25	13	1.12	2.03	71.50	42.63
NYS	Giant Food	GFS.A	27.50	27.50	0.00	0.00	14	0.60	2.18	29.75	21.13
NYS	Great Atlantic&Pacific Tea	GAP	43.63	41.00	– 2.63	– 6.02	10	0.80	1.95	59.63	37.75
NYS	Kmart	KM	28.00	26.88	– 1.13	– 4.02	16	1.72	6.40	37.00	23.38
NYS	Kroger	KR	13.88	13.13	– 0.75	– 5.41	50	0.00	0.00	17.00	10.63
NYS	Melville Corp.	MES	42.00	40.25	– 1.75	– 4.17	11	1.40	3.48	57.75	32.75
OTC	Fred Meyer	MEYR	11.75	11.50	– 0.25	– 2.13	– 58	0.00	0.00	18.25	10.00
NYS	Penney, JC	JCP	43.38	42.88	– 0.50	– 1.15	7	2.64	6.16	71.25	37.38
NYS	Safeway	SWY	12.25	12.00	– 0.25	– 2.04	30	0.00	0.00	16.88	10.25
NYS	Smith's Food & Drug	SFD	28.13	29.63	1.50	5.33	23	0.28	0.95	34.50	23.00
NYS	Wal-Mart	WMT	31.50	28.50	– 3.00	– 9.52	26	0.12	0.42	36.75	20.25

Note: Durr-Fillauer completed a 5-for-4 stock split.

Key: (H) = New annual high reached in the bi-weekly period. (L) = New annual low reached in the bi-weekly period. (d) = Deficit. NYS = New York. ASE = American. OTC = Over the counter. (s) = Reflects stock split.

Source: Nordby International, Inc., Boulder, Colorado (303) 449-0326.

DRUG STORE NEWS

VOL. 1/NO. 1 JANUARY 21, 1991

for the PHARMACIST

SPECIAL REPORT

Consultation best medicine for seniors

By Susan Ball

Sheila Pender, a pharmacist in a Revco store in Pawley's Island, S.C., clearly remembers the incident, which happened soon after she graduated from pharmacy school 2½ years ago.

An elderly man came in regularly for nitroglycerin refills, which his doctor had instructed he take "for chest pains." Pender began to wonder, and finally asked, whether he was using up the medicine or was perhaps storing an extra supply. He was taking it regularly, he replied, and no, he wasn't sure his doctor knew this. When she phoned, the doctor said he wasn't aware and sent the man for extensive tests. It turned out he had severe blockage and could have had a heart attack at any moment.

"That got me to watching what people take *very* careful

Continued on page 14

Patient consultation: Myth or reality?

By James Frederick

In the 1990s, pharmacy consultation will be everybody's hot button.

The dispensing of professional guidance along with drugs has always been, in the words of National Association of Retail Druggists spokesman Todd Dankmyer, "part and parcel of the profession." But now, in the glare of cost-cutting efforts by government and private health care programs and growing moves to mandate some form of consultation, both independent and chain pharmacies are re-evaluating their commitment and their effectiveness in communicating with their patients.

"Why are 50 percent of patients taking medications the wrong way?" asks Ernest Boyd, executive director of the Ohio Phar-

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Strong R & D efforts focal point of the '90s

By Harold Cohen R.Ph.

NEW YORK — Despite an FDA scandal that sent shock waves throughout the pharmaceutical manufacturing community and slowed drug approvals to a crawl, branded and generic pharmaceutical manufacturers continue to pump large sums of money into research and development.

While federal officials weed out the last of the corrupt participants in the industry-wide drug approval scandal, the FDA has reorganized, naming Dr. David Kessler as commissioner. Hopefully, the necessary process of moving the hundreds of new and abbreviated new drug approvals through a very clogged pipeline will begin to pick up steam.

Good news

That would be good news for the scores of generic and branded pharmaceutical companies that have invested millions into developing and bringing new drugs to market. According the Pharmaceutical Manufacturers Association (PMA), branded pharmaceutical manufacturers (also referred as PMA companies), spent some $8.2 billion in 1990 for worldwide research and development of human and veterinary drugs.

New product introductions from this sector of the industry is particularly vital because of expected losses from drugs going off patent over the next five years.

According to David Saks, an analyst with Wedbush Morgan Securities, the market for "brand name generics and multi-drug source products could double to $16 billion in sales." Saks credits much of that gain to "$10.7 billion worth of brand name prescription drugs losing patent protection between 1990 and 1995." (See *chart)*

The best selling drugs fall into three therapeutic categories; cardiovascular, central nervous system, and anti-infectives. According to PMA, sales of products in these three categories alone account for approximately 60 percent of all prescription drugs sold in the U.S.

Top 15 selling drugs losing patents

Product	U.S. patent expiration	Est. U.S. sales 1989 (million)
Zantac	2002	$1,200
Vasotec	2000	600
Cardizem	1992	578
Tagamet	1994	570
Capoten	1995	500
Mevacor	1999	500
Ceclor	1992	425
Prozac	2001	425
Procardia	1991	420
Naprosyn	1993	410
Tenormin	1991	375
Xanax	1993	358
Seldane	1994	320
Feldene	1992	310
Voltaren	1993	300

Source: David Saks, Wedbush Morgan Securities

Cardiovascular research

According to a 1989 PMA survey of drugs in development, 48 companies spent $1.7 billion (or 27 percent of total research dollars) to develop 91 medicines for heart disease, hypertension and stroke.

The bulk of the industry's investment in cardiovascular research is going toward the treatment of hypertension.

Alzheimer's disease

Drugs in development for Alzheimer's disease are not expected to cure this deteriorating condition, but ease its symptoms. Approximately four million Americans suffer from Alzheimer's and, according to Edward F. Truschke, president, Alzheimer's Association.

Many of the drugs being developed for this disease fall into a category known as cholinesterase inhibitors. They are designed to interrupt the action of cholinesterase enzyme, the enzyme that blocks acetylcholine, the neurotransmitter responsible for sending messages between brain cells.

Diabetes

Approximately 11 million Americans suffer from diabetes. According to John F. Beary, III, M.D., senior vice president for Science and Technology, PMA, diabetes researchers are concentrating their efforts in three major areas: 1. Type I (insulin-dependent) diabetes; 2. Type II (non-insulin-dependent) diabetes and; 3. prevention of complications in the eyes, nerves and blood vessels associated with both Type I and Type II diabetes.

AIDS

As of this past summer, there were 77 drugs being investigated to treat AIDS, AIDS-related diseases, and opportunistic infections (OI) common to AIDS victims (OI account for up to 90 percent of all AIDS-related deaths).

According to PMA, 15 medicines under investigation to treat AIDS fall into the category of biotechnology drugs. This category is comprised of several drug subcategories.

Generics

Generic drug approvals, which have virtually come to a standstill because of the recent FDA probe, will pick up and continue to grow steadily as patent protection on the top 100 drugs expire over the next decade.

According to Wedbush Morgan Securities analyst David Saks, in 1990 alone, generics accounted for approximately 20 percent of the $40 billion in prescription drug sales. His forcast is for the generic market to double as a "colossal pileup of generic ANDAs" finally get approved.

Correction

Drug Store News incorrectly reported in its Dec. 10 issue that lobeline was among the more than 200 over-the-counter drug ingredients banned by the Food and Drug Administration recently.

Although a number of ingredients used in OTC smoking deterrent products were removed from the market, FDA has taken no action with respect to lobeline. Indeed, lobeline remains a key ingredient in Advantage Life Products' Cigarrest, one of the nations's leading nonprescription smoking deterrent programs.

Scam of the month

The following scam has been reported to have surfaced throughout several Midwest states. It involves a clever and audacious professional patient who had learned to mimic foreign accents and master medical nomenclature related to his scam. By use of the phony accent, the con artist could claim alleged misunderstanding should any problem develop.

The con artist would arrive in a metropolitan community, rent a motel room then and use local phone books to plot a list of suburban area pharmacies which would become his targets. Using his fake accent, calls would be made to drug stores and the scam would begin.

Attempts were made to order a variety of prescription drugs for a phantom patient. His spiel was usually the same. "Hello, this is Doctor (strange name). I need your help. A short while ago I just happened to be at a local service station (or garage, automobile agency, etc.). A young mechanic had been badly burned in a gasoline explosion. Of course, I did what I could before the ambulance arrived. When I returned to my office the young man's wife, nearly hysterical, called. Her husband has refused to be admitted to the hospital (lack of insurance, cost, etc.). He is now at home and in pretty bad shape. I agreed to see the young man as soon as I can. In the meanwhile, the wife will be coming to your store. Please have the following ready for her."

At this point, an order is given for a variety of medications and materials appropriate for severe burns, then, almost as an after thought --"Oh yes, he is probably in terrible pain, will need some ———— ————."

Dutifully, the "doctor" then provides his office address (usually a large medical complex) and a DEA number. Within minutes after completing his final call, the con artist begins to deliver his girlfriend (the "patient's" wife) to each store which has agreed to cooperate. Once all the prescriptions are collected, all nonnarcotic materials are discarded. The analgesics are immediately sold to local street dealers. By the day's end, the con artist and his friend are safely out of town and on their way to the next.

Editor's Note: This particular con artist was eventually apprehended and charged with numerous felonies. He is currently serving a long sentence in a Missouri correctional facility.

You be the judge

Every pharmacist, at one time or another, is faced with a customer who has become addicted to medication. This case helps to answer whether or not the pharmacist/pharmacy and/or the drug's manufacturer can be held liable for one's addiction.

New York — This case concerns a customer addicted to Talwin, which she had been taking since 1968 for migraine headaches. In 1973, the patient told the doctor she was taking a trip and he prescribed Talwin injectable, syringes and Dramamine. The drug and syringes were purchased from a drug store over several years, despite their alleged nonrefillable status (according to testimony, the physician stopped treating the patient in 1975). By 1980, she was injecting Talwin every hour. Eventually she admitted to a hospital. Even as an outpatient during this period, she was able to refill Talwin at her drug store without authorization from the doctor. As a result of repeated injections, she suffered permanent damage to her leg and thigh. She sued.

The jury awarded the plaintiff $650,000. Liabilities were apportioned as follows: 65 percent to the pharmacy, 18 percent to the plaintiff and 17 percent to the manufacturer. The manufacturer argued that, based on evidence of wrongdoing by the pharmacy and plaintiff herself, it should not be held responsible. Were the liabilities apportioned fairly?

RESULTS — During appeal, the court said it was obvious that the pharmacy illegally and improperly refilled the Talwin and syringe prescriptions as well as maintaining improper records. The court ruled there was enough evidence presented that the plaintiff's actions also contributed negligence (for example, she admitted that she simultaneously refilled two separate prescriptions for Talwin at two different pharmacies without telling either of the pharmacists). Based on all the evidence presented to the lower court, the appellate court ruled that the trial court erred in its judgment. The matter was remanded for a new trial.

Bikowicz v. Sterling Drug, Inc. 557 N.Y.S.2d 551 (AD.3 Dept. 1990)

Source: *Rx Ipsa Loquitur*, a publication of The American Society For Pharmacy Law

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